



WEEKLY ECONOMIC DIGEST

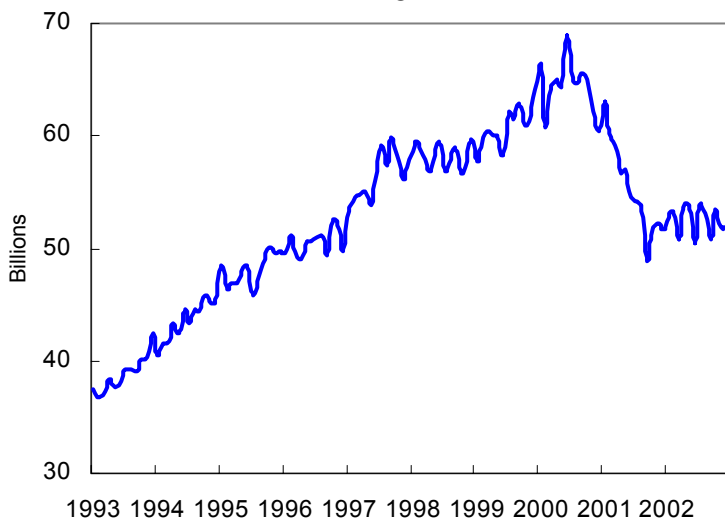
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF



January 28, 2003

The Economy Shows Little Momentum Except for Housing

New Orders for Nondefense Capital Goods
Excluding Aircraft

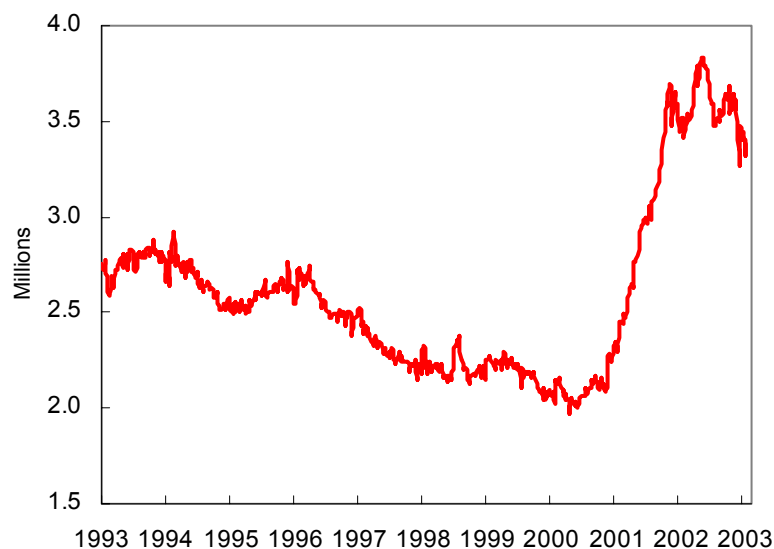


Source: Census Bureau, U.S. Department of Commerce.

- **Housing is still booming.** New home sales rose 3.5 percent in December, while sales of existing homes rose by 5.2 percent. Both those increases exceeded the expectations of financial market forecasts. Moreover, homebuilders remain optimistic. Housing starts grew by 5 percent in December to 1.835 million. That was the highest rate of starts since the mid-1980s.

- **Indicators of business investment remained weak in December.** Orders for durable goods rose by only 0.2 percent last month. Financial markets had been expecting a 1 percent rise. Although defense demand remained robust, nondefense activity declined. New orders for nondefense capital goods excluding aircraft, a key indicator of future business investment, fell by 0.1 percent. That measure has not changed significantly for more than a year.

Continuing Claims for Unemployment Insurance



Source: Employment and Training Administration,
U.S. Department of Labor.

- **Jobless claims remain high.** New claims for unemployment insurance averaged 386,500 over the four weeks ending January 18, down slightly from its recent trend. However, continuing claims have remained stubbornly high. Those ongoing claims exceeded 3.4 million in the first full week of the month, or about 2.7 percent of those employees covered by unemployment insurance.

- **The Fed is not expected to change interest rates.** Economic indicators have not changed substantially over the six weeks since the last meeting of the Federal Open Market Committee. With inflation at relatively low levels, the Federal Reserve is not under any pressure to raise short-term rates. Prices in the futures markets for federal funds imply that market participants do not expect the Fed to change rates at the close of their meeting tomorrow.

| Economy At A Glance | Dec | Nov | Oct | Sep | 2002 Qrt 4 | 2002 Qrt 3 | 2002 Qrt 2 | 2002 Qtr 1 | 2002 | 2001 |
|--|------|------|------|-------|---------------|---------------|---------------|---------------|------|-------|
| Economic Activity | | | | | | | | | | |
| Real GDP (% growth)* | | | | | | 4.0 | 1.3 | 5.0 | | 0.3 |
| Industrial Production (% growth) | -2.4 | 1.2 | -5.8 | -1.2 | -2.4 | 3.4 | 4.4 | 1.4 | 1.7 | -5.7 |
| Capacity Utilization (Level, %) | 75.4 | 75.6 | 75.6 | 76.0 | 75.5 | 76.2 | 75.7 | 75.1 | 75.6 | 77.3 |
| Civilian Unemployment Rate (Level, %) | 6.0 | 6.0 | 5.7 | 5.6 | 5.9 | 5.7 | 5.9 | 5.6 | 5.8 | 4.8 |
| Housing Starts (Thousands) | 1835 | 1747 | 1660 | 1808 | 1747 | 1697 | 1667 | 1725 | 1709 | 1603 |
| Real Disposable Personal Income* (% growth) | | 3.7 | 2.4 | 2.4 | | 3.1 | 3.9 | 14.5 | | 1.8 |
| Retail Sales (% growth) | 15.4 | 11.4 | 1.2 | -16.6 | 1.2 | 6.6 | 4.5 | -3.2 | 3.4 | 3.9 |
| Personal Saving Rate (Level, %)* | | 4.3 | 4.4 | 4.4 | | 3.8 | 4.0 | 3.5 | | 2.3 |
| Inflation & Productivity | | | | | | | | | | |
| CPI-U Inflation, All Items (% growth) | 1.2 | 1.2 | 3.7 | 2.4 | 2.4 | 1.9 | 3.4 | 1.4 | 1.6 | 2.8 |
| Core CPI-U Inflation (% growth) | 1.2 | 2.4 | 2.4 | 1.2 | 1.8 | 2.0 | 2.2 | 2.3 | 2.3 | 2.7 |
| Compensation per Hour (% growth)* | | | | | | 2.4 | 4.5 | 3.6 | | 4.1 |
| Output per Hour (% growth) | | | | | | 5.1 | 1.7 | 8.6 | | 1.1 |
| Financial Markets | | | | | | | | | | |
| T-Bill Rate, 3-month (Level, %) | 1.2 | 1.2 | 1.6 | 1.6 | 1.3 | 1.6 | 1.7 | 1.7 | 1.6 | 3.4 |
| T-Note Rate, 10-years (Level, %) | 4.0 | 4.1 | 3.9 | 3.9 | 4.0 | 4.3 | 5.1 | 5.1 | 4.6 | 5.0 |
| Federal Funds Rate (Level, %) | 1.2 | 1.3 | 1.8 | 1.8 | 1.4 | 1.7 | 1.8 | 1.7 | 1.7 | 3.9 |
| Dow Jones Industrial Avg (Index level) | 8527 | 8626 | 8048 | 8161 | 8400 | 8488 | 9913 | 10105 | 9226 | 10189 |

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week.

Upcoming Economic Releases:

- **Federal Open Market Committee Meeting** [Tuesday and Wednesday, January 28-29]
- **Gross Domestic Product, Fourth-quarter 2002 (Advance)** [Release: Thursday, January 30]
- **The Employment Cost Index, Fourth-quarter 2002** [Release: Thursday, January 30]
- **Personal Income and Spending, December** [Release: Friday, January 31]